

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 IO-13 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 ISO-00 GSA-02 AF-10 ARA-06 OPIC-03 /130 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 3594

INFO AMEMBASSY TOKYO

USMISSION OECD PARIS

USDEL MTN GENEVA

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E.O. 11652:N/A

TAGS: ETRD, EGEN, EEC

SUBJECT: US/EC STEEL CONSULTATIONS

REF: (A) EC BRUSSELS 3513, (B) EC BRUSSELS 2592,

(C) EC BRUSSELS 3404, (D) STATE 41825

1. SUMMARY: US/EC STEEL CONSULTATIONS, APRIL 21, COVERED WIDE RANGE OF ISSUES INCLUDING JAPANESE TRADING PRACTICES, ZENITH/VAT CASES, SPECIALTY STEEL, EC STEEL PROGRAM, AND INTERNATIONAL CONSULTATIONS. EC REGISTERED STRONG CONCERN OVER PROSPECTS FOR VAT CASE AND URGED WE SEEK ITC REVIEW OF SPECIALTY STEEL QUOTAS. US SOUGHT PROMPT DISCUSSIONS OF STEEL ISSUES IN OECD GROUP ALSO DISCUSSED ESTABLISHMENT OF OECD AD HOC GROUP, BUT FINAL DECISIONS WERE REACHED NEXT DAY (SEE SEPTEL). END SUMMARY.

2. ON APRIL 19-20, USDEL HEADED BY WOLFF (STR) MET WITH EC DEL HEADED BY LOEFF APRIL 21 FOR TALKS ON SEVERAL
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STEEL TRADE ISSUES.

3. JAPANESE TRADING PRACTICES: US SIDE SAID THAT JAPANESE PROBLEM WAS MOSTLY PRICE ISSUE--DUMPING ON DEPRESSED MARKETS AND GROUING IN TIGHT MARKETS. ONCE INROADS ARE MADE INTO MARKETS, PRICES TEND TO BE RAISED. US INDUSTRY IS CONVINCED THAT AT LEAST 5 OF THE 6 BIG

STEEL COMPANIES HAVE BEEN SELLING AT LESS THAN COST IN THE US MARKET, PROVOKING A NUMBER OF ACTUAL AND PROSPECTIVE DUMPING COMPLAINTS. THE JAPANESE RESPONSE HAS BEEN TO SEEK AN EXPORT RESTRAINT AGREEMENT WHICH US HAS REFUSED. MOREOVER, INSUFFICIENT DEMAND IN THE INTERNAL JAPANESE MARKET HAS LED TO AN ADDED EXPORT PUSH. TO THE EXTENT JAPAN MAINTAINS PRODUCTION WITHOUT REGARD TO DOMESTIC DEMAND AND THE RECESSION ABROAD, THIS STEEL MUST FIND A MARKET SOMEWHERE. THIS SITUATION HAS LED TO US INDUSTRY FRUSTRATION WHICH HAS MANIFESTED ITSELF IN A SERIES OF ACTIONS INCLUDING THE VAT CASE.

4. ON THE COMMISSION SIDE, LOEFF AGREED WITH US ANALYSIS OF THE ANTI-CYCLICAL EXPORT BEHAVIOUR OF JAPANESE FIRMS AND SAID THIS HAS BEEN THE SUBJECT OF CONSIDERABLE DISCUSSION WITHIN THE COMMISSION. THE COMMISSION'S CONCERN ABOUT DUMPING PRACTICES OF JAPANESE FIRMS IS NOT RESTRICTED TO STEEL. FOR EXAMPLE, IN THE SHIPBUILDING INDUSTRY, FIRMS TAKE TURNS UNDERCUTTING EACH OTHER'S PRICE ON THE EC MARKET SO THAT IT IS DIFFICULT TO ACCUSE ANY ONE FIRM OF DUMPING. LOEFF SUGGESTED THAT THE US AND EC MIGHT EXCHANGE INFORMATION WHEN EITHER SIDE HAS SOME TANGIBLE EVIDENCE OF ABUSIVE JAPANESE TRADING PRACTICES.

5. ZENITH/VAT: WOLFF NOTED THAT THE CUSTOMS COURT DECISION INVALIDATED 75 YEARS OF US PRACTICE IN THE TRADE AREA. THE ADMINISTRATION HAD ONLY A FAIR CHANCE IN EACH OF THE UPPER COURTS OF SECURING A REVERSAL OF THE ZENITH DECISION, WOLFF SAID, AND THERE IS NO CER-
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TAINTY THAT WE WOULD WIN. THE ADMINISTRATION HAS APPEALED THE CUSTOMS COURT RULING AND WILL MAKE EVERY EFFORT TO SEEK A RAPID FAVORABLE DECISION. AT THIS STAGE WE DO NOT CONSIDER THE PROSPECT OF REMEDIAL LEGISLATION PROMISING SINCE THE SYMPATHY IN CONGRESS RESTS WITH ZENITH. THE ADMINISTRATION WOULD, HOWEVER, SEEK LEGISLATION SHOULD IT LOSE AN APPEAL. THE ESTIMATED SCHEDULE OF THE APPEALS PROCESS CALLS FOR AN ARGUMENTATION IN JUNE, A DECISION IN THE FALL, AND IF NECESSARY, A FINAL SUPREME COURT DECISION LATE 1977 OR EARLY 1978. WOLFF ASSURED EC SIDE THAT THIS ISSUE WAS OF THE HIGHEST CONCERN TO THE ADMINISTRATION AND THAT THE ADMINISTRATION WOULD BEGIN A PROCESS OF EDUCATION OF THE IMPLICATIONS OF THIS CASE IN CONGRESS AND AMONG US LABOR AND BUSINESS INTERESTS.

6. THE COMMISSION EXPRESSED SERIOUS CONCERN OVER THE SITUATION AND SAID THAT A SIMILAR NEGATIVE DECISION ON THE US STEEL CASE WOULD LEAD THE US AND EC INTO A TRADE

WAR. THE EUROPEANS AGREED THAT THE US AND EC WERE IN FULL AGREEMENT ON GOALS IN THIS CASE AND THAT THE US WAS BEST PLACED TO DETERMINE STRATEGY. THE EC BELIEVED, HOWEVER, THAT THE US PROGNOSIS DID NOT GIVE THE COMMISSION MUCH WITH WHICH IT COULD REASSURE MEMBER STATES. THEY ARE PARTICULARLY INTERESTED IN OUR CONTINGENCY PLANS.

7. RHODESIAN CHROME: EC SIDE EXPRESSED SERIOUS CONCERN THAT US CERTIFICATION PROCEDURES REGARDING THE IMPORTATION OF CHROME FROM RHODESIA NOT BECOME AN UNDUE BARRIER TO TRADE. LOEFF SAID THE EC STATISTICS SHOWED THAT NO RHODESIAN CHROME IS IMPORTED INTO THE COMMUNITY. ECDEL ASKED IF EC ASSURANCES THAT NO RHODESIAN CHROME IS BEING IMPORTED INTO THE EC WOULD SATISFY US REGULATIONS.

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8. US SIDE REPLIED THAT THE USG HAS FORESEEN POTENTIAL FOR DIFFICULTY ON THIS QUESTION, BUT IF ALL COUNTRIES WERE LIVING UP TO THE EMBARGO THERE SHOULD BE NO PROBLEM. WE ARE PREPARED TO CONSIDER PROBLEMS WHICH MIGHT ARISE IN THE ADMINISTRATION OF THE STATUTE, IT IS NOT THE INTENT OF THE US GOVERNMENT TO CREATE A TRADE BARRIER. AS UNDER SECRETARY COOPER HAD AGREED DURING THE CONSULTATIONS, US AND EC EXPERTS SHOULD GET TOGETHER TO DISCUSS THE IMPLEMENTATION OF US PRO-

CEDURES.

9. SPECIALTY STEEL: USDEL NOTED THE SITUATION ON SPECIALTY STEEL WAS NOT GREATLY IMPROVED, ALTHOUGH SOME SECTORS WERE DOING BETTER THAN OTHERS. SALES OF SHEET AND STRIP HAD GAINED DUE TO STRONG DEMAND IN THE AUTOMOTIVE AND CONSUMER DURABLE SECTOR. IN ADDITION, BAR AND ROD SALES HAVE BEEN IMPROVING MODERATELY. PLATE AND TOOL HAVE DECLINED, ALTHOUGH PROFITS IN TOOL STEEL WERE UP. MODEST IMPROVEMENT IS QUALIFIED BY THE LACK OF LIMITED OFFICIAL USE

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SIGNIFICANT GAINS IN EMPLOYMENT.

10. SINCE THE ITC REPORT IN MARCH, A WORKING GROUP HAS BEEN STUDYING THE SITUATION IN THE INDUSTRY, AND THE ECONOMIC POLICY GROUP WILL SHORTLY CONSIDER IT REPORT. WOLFF NOTED THAT IT WOULD BE HELPFUL IF THE US AND EC WERE ENGAGED IN A MULTILATERAL DISCUSSION OF STEEL ISSUES. IF A DECISION IS TAKEN TO SEEK ITC ADVICE, IT SHOULD BE AVAILABLE IN AUGUST OR SEPTEMBER. THIS WOULD BE WELL BEFORE THE QUOTAS FOR THE FIRST HALF OF THE NEW QUOTA YEAR BEGIN TO BITE.

11. THE COMMISSION RESPONDED THAT IT WOULD HAVE TO AGAIN CONSIDER ITS GATT OPTION SINCE THE EXTENSION OF THE DEADLINE EXPIRED ON MAY 14. MOREOVER IT NEEDED TO SHOW THE MEMBER STATES THAT IT OR THE US WAS ACTING SINCE OTHERWISE IT WOULD BE DIFFICULT TO KEEP THE MEMBER STATES UNDER CONTROL.

12. THE EC ALSO ASKED ABOUT THE POSSIBILITY OF FURTHER JAPANESE SHORTFALLS THIS QUOTA YEAR BEING REALLOCATED.

13. EC STEEL SITUATION: COMMISSION AGAIN OUTLINED KEY ELEMENTS OF DAVIGNON STEEL PLAN (REFTELS) AND TALKS WITH EC STEEL TRADE PARTNERS. THE NEW ELEMENTS OF THE COMMISSION PROGRAM, NOW CALLED THE DAVIGNON PLAN, ARE SCHEDULED TO GO INTO EFFECT ON MAY 1. THE SITUATION WITH RESPECT TO THE JAPANESE VRA IS UNCHANGED FROM THAT DESCRIBED TO US LAST DECEMBER AND THE COMMISSION HAS NO EVIDENCE THAT THE JAPANESE ARE NOT LIVING UP TO THEIR PROMISE. AT THE SAME TIME, THE COMMISSION IS TRYING TO KEEP SOUTH AFRICA BELOW ITS 1976 RECORD LEVELS AND EXPECTS TO REACH AN AGREEMENT FOR SHIPMENT 25 PERCENT BELOW '76 LEVELS. DISCUSSIONS ARE ALSO CONTINUING WITH SOUTH KOREA, SPAIN, AND BRAZIL BUT HAVE NOT REACHED ANY RESULTS. THE AIM OF THESE LIMITED OFFICIAL USE

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DISCUSSIONS IS TO REDUCE IMPORTS BELOW RECORD '76 LEVELS TO A LEVEL MORE IN LINE WITH ALTHOUGH HIGHER THAN 74-75 LEVELS. DESITE THESE EFFORTS, GREAT PRESSURE CONTINUES FROM THE MEMBER STATES--ESPECIALLY FRANCE, BELGIUM, LUXEMBOURG AND THE UK. IT WAS A MOST DIFFICULT SITUATION FOR THE COMMISSION SINCE THE ULTIMATE GOAL OF DAVIGNON PLAN, ALTHOUGH NOT OFTEN PUBLICLY STATED, IS AN ACTUAL REDUCTION OF CAPACITY , AND THEREFORE EMPLOYMENT IN THE EC STEEL INDUSTRY. THE COMMISSION HOPES THAT WHILE IT IS TRYING TO CONTROL THIS SITUATION, THE US WILL BE UNDERSTANDING AND NOT RAISE DIFFICULTIES.

14. OECD DISCUSSIONS: THERE WAS A PROLONGED DISCUSSION OF THE ESTABLISHMENT OF AN OECD AD HOC STEEL GROUP, BUT FINAL AGREEMENT WAS NOT REACHED UNTIL NEXT DAY (SEE SEPTTEL).HINTON

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